ANNUAL REPORT 1986

60TH YEAR

WESTBURNE

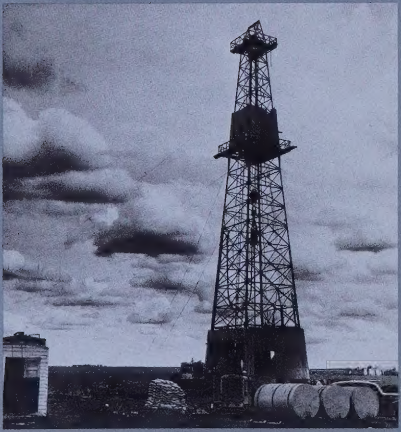
INTERNATIONAL INDUSTRIES LTD.

Contents

Jul/ or August 1986

Westburne International Industries Ltd. has developed from its origins in oil and gas exploration to become, in its 60th year, a major Canadian corporation. Early expansion into contract drilling services and supplies was later followed by diversification into the electrical and plumbing supplies market in Canada. Today, Westburne's principal business enterprise is its billion-dollar wholesale construction equipment and supplies distribution operations throughout North America.

Westburne traces its origins to 1926 when a gas boom in Turner Valley, Alberta, prompted a group of Calgary businessmen to form a small exploration company, Ainsworth Oils Limited. Renamed Commonwealth Petroleums Limited the following year, the company's first successful well at Turner Valley came into production in 1931.



Two significant events in Commonwealth's development were its expansion into contract drilling services in 1939 and the distribution of oilfield equipment and supplies in 1946.

Commonwealth was acquired by John Scrymgeour, currently Chairman of Westburne International Industries Ltd., and his partner William Atkinson, now deceased, in 1959. The company was later to provide the foundation from which Westburne's petroleum industry services and supplies division would be launched.

Control of Westburne Oil Company Limited, from which the present corporation derives its name, was acquired by Commonwealth in 1962. The name of this company was changed and is now the 94 percent owned construction equipment and supplies subsidiary. With the assistance of

Lucien Cornez, a senior officer of Westburne Oil, a study was carried out to identify new business prospects which would offset the cyclical nature of the petroleum industry. The wisdom of this undertaking is clearly evident today.

In 1963, Westburne began its activities as a wholesale distributor of plumbing and heating supplies with the purchase of Saillant Inc., a Quebec City based firm. This initial acquisition established the pattern for future expansion. By acquiring successful businesses and maintaining

the original management team in place, Westburne extended its penetration of the industry to a national level by 1968. Diversification into electrical equipment and supplies was begun in 1971 and this segment was later augmented by electronics and telecommunications supplies.

Westburne's third division, oil and gas exploration and production, was established in 1969 when the oil and gas properties owned by Commonwealth and Westburne Oil were brought together under one management team.

On March 20th of that year, Westburne International Industries Ltd. was incorporated as a Canadian public company and became the parent firm of the three operating divisions.

Today, Westburne's contract drilling services and supplies subsidiary provides a wide range of drilling equipment and support programs to the worldwide energy industry through its Canadian, United States and international divisions. Oilfield equipment and supplies are distributed through nine branches across Canada and to the international market

through an export operation based at Houston, Texas.

Oil and gas exploration activities are conducted primarily in Canada and the United States while interests in prospective oil and gas areas are held in the United Kingdom sector of the North Sea and in West Africa.

Westburne's major business enterprise, construction equipment and supplies, is today the largest distributor of electrical, electronic, telecommunications, plumbing, heating, waterworks and air conditioning supplies in Canada with 33 plumbing and heating supplies outlets in the United States.

From its modest beginnings in 1926, Westburne International Industries Ltd. has evolved into a major Canadian corporation. The Company's mix of business segments has provided stability and strength for its continued development. Westburne's successful formula of delegating authority at the regional and branch level has fostered a strong entrepreneurial approach motivating the development of innovative products, services and equipment by each of the three subsidiaries.

The philosophies of expansion and decentralized management that have guided Westburne's growth will continue to shape its corporate strategies in the years to come.

Chairman's Message to the Shareholders

Westburne International Industries Ltd. achieved improved revenues, earnings and cash flow for the year ended March 31, 1986, prior to a non-cash write down in the carrying value of assets employed by our petroleum industry divisions. Sales and operating revenues were $1,438.6 million compared with $1,288.5 million in the previous fiscal year and net earnings before asset write downs which aggregated $69.9 million, increased 65 percent to $15.5 million from $9.4 million last year; earnings per common share were $1.48 compared with $0.90. Cash flow from operations was $34.7 million, up from $30.0 million in the 1985 fiscal year.

After write downs, a loss of $54.4 million was recorded which translates into a loss per common share of $5.20. Shareholders' equity was reduced to $176.2 million from last year's $231.4 million, while per share equity declined to $16.85 from 1985's $22.13.

The emphasis and investment that Westburne has made in the electrical and plumbing wholesale industry since 1963 and the recent levels of revenues and profits has resulted in this division being the principal business segment of the Company.

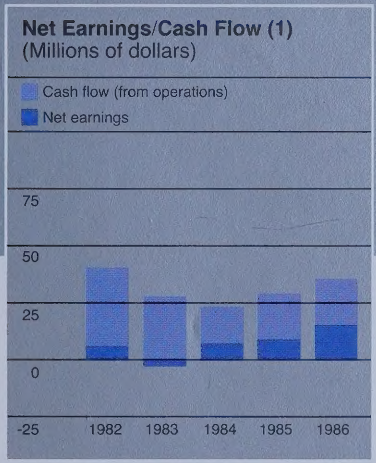
The division had record revenues of $1.255 billion, up nearly 11 percent over last year's $1.133 billion, which was also a record. Pre-tax, the division earned $31.0 million, which was 43 percent higher than last year's $21.6 million, even though operations in the United States continued to be unprofitable. The diversification of our services and product lines is an ongoing process and we now market sophisticated electronic and telecommunications products such as cellular telephone systems, advanced data retrieval equipment and satellite systems. We have also targeted Canada's increasingly automated industrial and manufacturing base with robotics, programmable logic controllers, photoelectrics and an industrial computer.

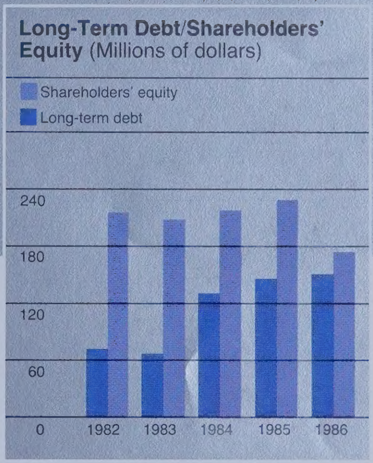
However, our basic business still remains the sale of electrical, plumbing, heating and air conditioning products and to this end we agreed to acquire all of the assets of Frontier Commercial Refrigeration Ltd. effective September 3, 1986. Frontier, with 14 locations in Ontario, is a leading heating, air conditioning, refrigeration and ventilation wholesaler. This acquisition will be beneficial for both parties as it will permit Westburne to round out its line of products and give Frontier the opportunity to expand more rapidly throughout Canada.

The spirit of optimism in the Canadian petroleum industry following the Western Energy Accord that we reported to shareholders last year continued through the first three fiscal quarters. However, commencing in January 1986, a financially disastrous collapse in the world price of crude oil occurred as a result of the inability of the major producing nations to agree on an acceptable formula for limiting and sharing production in relation to the market available. The present low price for crude oil not only causes severe financial problems for the exporting nations but adversely affects the financial stability of the petroleum industry worldwide.

As a result, there has been a large reduction in the industry's exploration budgets and a further decrease in the drilling of new wells. In the United States, the number of drilling rigs working declined to the lowest level since record keeping began 45 years ago and, in Canada, a similar decline occurred after the active winter season. Many idle rigs are now available for sale or rental at extremely low prices. A realistic appraisal of Westburne's drilling equipment in light of current economic conditions in the contract drilling industry indicated that the value at which it was carried on the books was too high and we therefore decided it should be written down by $45.6 million to an estimated present value as determined by management. In addition, our oil and gas reserves, when valued at the crude oil prices prevailing on March 31, 1986, were worth less than their book value. In order to conform to

Highlights of Fiscal 1986





(1) Net earnings in 1986 are those before write down of assets of $69.9 million.

Thousands of Canadian Dollars except per share data

March 31	1986	1985
Operating Revenues	**$1,438,556**	$1,288,537
Net Earnings (Loss)		
Before write down of assets	**15,529**	9,386
After write down of assets	**(54,390)**	9,386
Earnings (Loss) per Common Share		
Before write down of assets	**1.48**	0.90
After write down of assets	**(5.20)**	0.90
Cash Flow	**34,723**	29,982
Working Capital	**161,617**	157,482
Long-Term Debt	**149,018**	146,617
Shareholders' Equity	**176,203**	231,422
Equity per Common Share	**16.85**	22.13

accepted accounting principles we took a write-off of $31.5 million. Finally, to complete our adjustments, we wrote off an investment of $2.3 million. A reduction of $9.6 million in the deferred taxes that we have set up reduced the net amount of these write-offs from $79.5 million to $69.9 million. It is important to note that these write downs did not reduce cash flow from operations.

Our two divisions in the petroleum industry, taken together, had much improved operations in fiscal 1986. Pre income tax, the net loss in these two divisions was reduced from $5.4 million to $0.5 million. However, these divisions face a difficult task until the world price of crude oil rises to more realistic levels. During this period, all efforts will be directed to a reduction of costs to equate the expected reduction in revenues. It is our intention to maintain the viability of these divisions to enable them to return to overall profitability when the petroleum industry comes back to more normal economic times.

The contemplated reorganization announced late last year which would have separated our three principal businesses into independent public companies will not proceed. The assumptions on which the reorganization was predicted are no longer valid largely due to the decline in value of the Company's oil and gas related businesses following the fall in world oil prices since January 1, 1986.

We wish to acknowledge at this time the great contributions made by six of our directors to your Company's growth. Messrs. L. Cornez, W. J. Cummer, J. Rimerman, J. P. Saillant, J. L. Thompson and D. W. Westcott, who are not standing for re-election, have in the aggregate served 68 years on the Board of Directors, several having been originally elected to serve when Westburne International Industries Ltd. was incorporated in 1969. Their broad business knowledge and wise counsel will be missed. In their new role as honorary directors, they will continue to serve in an advisory capacity to Westburne management.

J. A. Scrymgeour
Chairman of the Board

July 18, 1986

Construction Equipment and Supplies

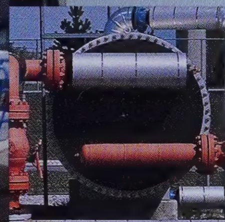
Traditional plumbing, heating and electrical product lines have been augmented by advanced electronic and telecommunications equipment.

Westburne's construction equipment and supplies distribution business achieved outstanding operating results in fiscal 1986. Revenues of $1.26 billion surpassed last year's record performance of $1.13 billion and pre-tax earnings rose to $31.0 million from $21.6 million one year ago.

Westburne is the largest distributor of electrical, electronic, plumbing, heating, waterworks, air conditioning and telecommunications supplies in Canada with 233 branches from coast to coast. Our principal markets include the contracting trades, industrial, commercial and institutional users, utilities and government agencies.

Residential building and renovation activity experienced a strong turnaround in Canada last year. All types of housing showed improved start levels and dwelling starts overall increased 23 percent representing the busiest year for construction since 1981.

This upturn in construction activity reflects improved economic conditions and lower interest rates which fostered a renewal of investor confidence in 1985. The industry was also impacted by tight rental markets, continued demand for condominium developments and increased investor interest in small-scale rental units following the $500,000 capital gains tax exemption introduced by the Federal Government last year.



A new transportation and distribution centre at Mississauga, Ontario (left) consolidates freight by geographical region for shipment to Westburne branches across Canada.

The continuation of strong economic growth and job creation in Ontario, which resulted in important net gains in interprovincial migration, culminated in a 35 percent increase in housing starts last year. House-building also improved in Quebec, Nova Scotia and New Brunswick.

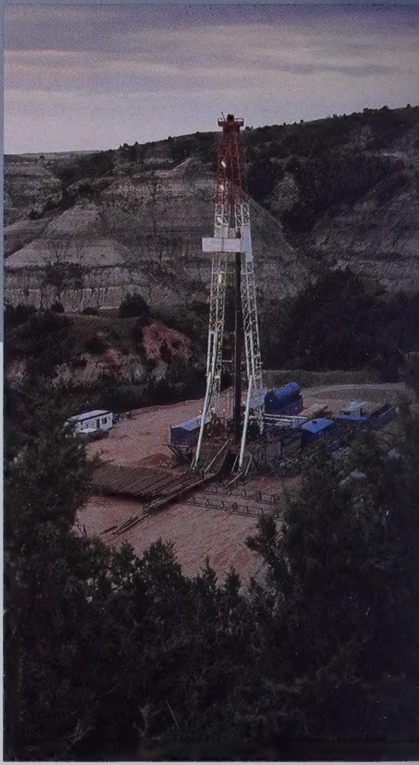
To expand our services in these markets, Westburne opened 11 new branches and established a transportation and distribution centre at Mississauga. With its proximity to Eastern Canada's large manufacturing base, the centre now consolidates shipments to our branches across Canada by geographical region and has resulted in improved service and reduced transportation costs.

In the Western provinces, where housing starts recorded a modest increase last year, Westburne was one of the first distributors to identify a trend away from large-scale housing developments to smaller custom-designed housing projects and an upswing in home renovation. To gain a foothold in this market, we launched a series of showrooms geared to consumers who personally select luxury bathroom fixtures for their homes. To date, the showrooms have enabled us to broaden our customer base and have improved our sales performance in the West.

The diversification of our services and product lines is an ongoing process and we now market sophisticated electronic and telecommunications products such as cellular telephone systems, advanced data retrieval equipment and satellite systems. We have also targeted Canada's increasingly automated industrial and manufacturing base with robotics, programmable logic controllers, photoelectrics and an industrial computer.

Our operations in the United States currently distribute plumbing and heating supplies through 30 branches in 15 states. A number of administrative changes were implemented last year to improve operating efficiencies. Data processing and, most recently, purchasing functions were reorganized on a national level similar to our Canadian operations and we concentrated our market activities in urban centres with strong industrial and residential construction activity.

The United States offers enormous potential not only for the distribution of plumbing and heating supplies but electrical and electronic products as well. We are committed to further streamlining our operations to achieve the long-term growth and profitability that is attainable in this market.



Contract Drilling Services

Westburne operates 53 land rigs with depth capacities varying from 3,000 to 20,000 feet through its Canadian, United States and international contract drilling operations. Standard drilling services are augmented by management and labour contracts, joint venture agreements, technical assistance contracts as well as classroom and on-site training programs.

During fiscal 1986, higher rig utilization rates and improved oilfield equipment supply sales increased revenues to \$160.0 million from \$129.5 million one year ago while pre-income tax losses were substantially reduced to \$0.7 million from \$9.6 million last year.

The sharp decline in world oil prices since January 1986 and subsequent downturn in demand for contract drilling services prompted an assessment of the value of our oilfield drilling assets. Management's realistic appraisal of these assets dictated a write down in the value of these assets by \$36.6 million (net of deferred income tax of \$9 million).

The majority of the write down was taken on deep drilling equipment as fourteen rigs in the 15,000 to 20,000 foot range have been stacked since March 31, 1984. Because drilling assets are primarily depreciated according to the number of days worked, these rigs had retained high book values in excess of current values.

In Canada, the continued emphasis on oil exploration rather than deep drilling for natural gas improved demand last year for shallow to medium range equipment. Westburne's Canadian fleet is concentrated in the 3,000 to 14,500 foot depth capacity and we experienced a 16 percent increase in operating days during fiscal 1986. Near-maximum rig utilization was achieved during the winter drilling season. However, the low crude oil prices has reduced demand in the current fiscal year. To assist the petroleum industry whose earnings and cash flow are severely impaired by these low crude oil prices, the Federal Government and the Provincial Government of Alberta have responded with royalty and tax credits to improve cash flow and introduced incentives such as the exploratory drilling assistance program to stimulate activity.

The Alberta government has also implemented a development drilling assistance program to help the drilling, geophysical and service sectors this summer. The program will return 40 percent of the operator's costs on development and injection wells spudded on or before September 30. The maximum allowed per well is \$200,000 with no benefits payable on the first 1,300 feet of hole. The Canadian Association of Oilwell Drilling Contractors forecasts that up to 100 more rigs could be employed over the summer months as a result of these incentives.

Westburne has supplied contract drilling services to the Canadian petroleum industry since 1939 and has established a wide customer base ranging from junior oil producers up to and including major exploration companies. In the coming year, we will continue to reduce operating costs and emphasize our traditional strengths in safety and training which not only improve employee performance and service to our customers but minimize such high-cost expenditures as insurance premiums.

In the international market, Westburne is one of the few Canadian contractors in operation. Our fleet of conventional and specialized drilling equipment is also augmented by technical assistance programs, labour management contracts and joint venture agreements. Revenues and earnings for the international division showed substantial improvement during fiscal 1986 and we are currently active in the North Sea and the Middle and Far East.

Demand for contract drilling services remained severely depressed in the United States last year. The oversupply of drilling equipment

Westburne's large fleet of specialized and conventional drilling equipment has been designed for work in a wide variety of climates and terrain. Supervisory, labour and training programs are marketed in addition to oilfield equipment and supplies.

kept prices and profit margins down. During fiscal 1986, Westburne achieved a break-even cash flow position in our United States operations. Although staff levels were reduced, we have retained our core of key operating personnel.

We will continue our efforts throughout our Canadian, United States and international fleets to contain costs and improve operating efficiencies. Staff reductions have been implemented and a number of long service employees, whose careers with Westburne span 25 to 35 years, have taken early retirement. We salute their hard work and dedication to the Company. We are confident that, with our long and successful background in this industry, demand for our services will once again rebound when oil prices return to a more profitable level.

Oilfield Equipment and Supplies

Westburne's oilfield equipment and supplies division distributes more than 12,000 products to oil and gas exploration and production companies, oilwell drilling contractors and the petrochemical process industry through nine branches across Canada and an export operation based at Houston, Texas.

Two new branches were opened last year to service heavy oil exploration and development activity in northeastern Alberta and an upturn in shallow gas drilling in southwestern Saskatchewan. Demand for oil production equipment remained strong throughout Western Canada particularly in Saskatchewan where government incentives have been implemented since 1982 to encourage exploration for new oil. However, during the first quarter of 1986, the market began to suffer from extreme competition.

Revenues for these operations increased during the year ended March 31, 1986, although earnings were down slightly from last year's performance. Sales efforts are now being directed towards marketing production maintenance and replacement supplies to offset reduced demand from drilling contractors.

Established in 1946, this division has developed a long standing reputation for quality products and service and is the largest Canadian owned business in its field. Despite the forecast for lower activity levels in the Canadian petroleum industry, depressed conditions in the past have served to direct attention to the more mature, financially stable companies and we are confident of opportunities ahead.

The oilfield equipment and supplies division has achieved consistent revenue growth during the past four years and we will consider acquisition prospects to expand this business segment in the coming year.

Oil and Gas Exploration and Production

Westburne's exploration and development programs were focused on crude oil prospects in Western Canada during fiscal 1986 while a modified drilling program was maintained in the United States. The division participated in a total of 126 wells resulting in 74 oil and 21 natural gas wells and 31 dry holes for a success ratio of 75 percent.

Proven and probable reserves at year end totaled 9.1 million barrels of oil and natural gas liquids and 54.4 bcf of natural gas. Proven and probable crude oil and natural gas liquids reserves increased by .70 million barrels over last year while natural gas reserves increased by 4.4 bcf.

The dramatic fall in world oil prices that occurred during the final quarter of our fiscal year coupled with lower gas sales and higher operating and administrative costs had an adverse impact on financial results. Revenues for the year ending March 31, 1986 of $29.1 million were down slightly from last year's $30.7 million. Cash flow decreased 16.3 percent to $11.3 million and net earnings before income tax and minority interest were $0.2 million compared with $4.2 million one year ago.

In line with Company policy and generally accepted accounting principles, the carrying value of our investment in oil and gas properties was written down to the estimated present value of future net revenues as determined by independent reservoir engineering reports as at March 31, 1986 based on prices in effect at that date. The write down, amounting to $31.5 million, was recorded as an increase in accumulated depletion.

A rationalization of the industry is currently underway and we expect that this will present certain acquisition or consolidation opportunities in which Westburne will be able to participate. Tighter economics will

Exploration and development activity was concentrated in Western Canada during fiscal 1986 while a modified drilling program was maintained in the United States.

require a renewed focus on lowering finding and operating costs in order to remain financially stable during this period of recession.

In the coming year, exploration will continue to be our main thrust to expand our long term oil and gas reserves. We will direct a majority of our available cash flow toward carefully chosen land purchases, farm-ins and reserve acquisitions. However, cash flow available for the foregoing activities will be impaired if world oil prices remain at current low levels.

We have recently made progress in improving our natural gas production and marketing operations. A new gas production facility was opened at Turner Valley in June 1985 and the Quirk Creek plant, which is normally shut-in during the spring and summer months, is on-stream for this period in fiscal 1986.

Last November, the Federal Government and the Provincial Governments of Alberta and Saskatchewan executed an agreement on natural gas marketing and pricing to provide for direct sales at prices freely negotiated between producers and distributors or large industrial users. In order to respond to this environment and an increasingly complex natural gas industry, Westburne's oil and gas division has become a founding member in a privately incorporated company known as Direct Energy Marketing Ltd. The company purchases gas from its shareholders and third parties for re-sale to pipelines, gas utilities, industrials and other customers in Canada and the United States. It offers a complete range of natural gas supply including spot, short or long term service and will arrange transportation to the customer's delivery point in Canada or the United States.

The direct sales concept has provided a vehicle through which non-contracted reserves can be marketed. In order to maintain gas sales revenue if prices decline after the November 1, 1986 deregulation, Westburne is making every effort to commence production from those shut-in wells that can be profitably produced after taking into consideration the capital investment required to process and deliver the gas to a transmission system.

Alberta

- Fenn West: Westburne has a 47.5 percent interest in a Leduc oil well producing at rates averaging 150 barrels of oil per day. The well has produced over 45,000 barrels since coming on stream in July 1985.
- Pembina/Rose Creek: The division has a 15.6 percent working interest in a Lea Park oil well which produced at rates as high as 250 barrels of oil per day in 1985. Westburne also participated in two dual zone gas wells and in completion of an existing marginal producer in an up hole gas horizon. The Company anticipates that a gas plant will be

flowed at rates of 75 barrels of oil per day and will be put on production as soon as an all-weather lease road can be built. The Company anticipates further Halfway oil prospects will be drilled during the coming year due to royalty holiday concessions received from the Government of British Columbia during 1985.

■ Stoddart: Westburne participated as to a 16.7 percent working interest in a Belloy gas well offsetting the Stoddart field.

constructed in this area and that natural gas sales will begin in the third quarter of our current fiscal year. Westburne has varying interests in 17,000 acres in this area.

■ Lochend: Development drilling continued in the Cardium Sand oil pool. Westburne participated in ten wells and now has an interest in 40 wells along the trend. A gas gathering system designed to strip liquids and conserve natural gas was completed during the year. Gas sales are expected to commence this year.

■ Grande Prairie: The division participated in three oil completions in this Halfway Sand Pool and now has an interest in 16 wells capable of production. Unitization discussions are proceeding with the intent of re-injecting natural gas into the reservoir.

■ Wembley: A well in this area of northwest Alberta tested natural gas at rates up to 6.4 million cubic feet per day from three separate horizons. Westburne has a 50 percent working interest in this prospect and anticipates that an offset well will be drilled during the year.

The division also participated in oil development ventures in the Crossfield East, Willesden Green and Boundary Lake pool areas. Natural gas reserve additions were made in the Spurfield, Worsley Armada, Provost-Monitor and Medicine River areas during the year.

Saskatchewan

■ Workman: Westburne has a 25 percent working interest in two Midale oil wells drilled during the year. Each well has the capability to produce in excess of 75 barrels of oil per day. Three more wells could be drilled in this pool extension during the current year.

■ Southeast: The division participated in new oil wells in the Workman East and Queensdale areas and continued development of oil properties in the Steelman area where three wells were drilled. Two development oil wells were drilled on the Storthoaks property.

■ Southwest: Two upper Shaunavon oil wells were drilled in the Butte-Gull Lake South Pool area (15-25 percent interest) and further development is anticipated in the coming year.

British Columbia

■ Peejay: The Company has a 50 percent interest before payout in an oil well drilled offsetting the Peejay Halfway pool. This well

United States

Westburne participated in 18 wells which resulted in 11 successful development and two exploratory wells and five dry holes. Seven of the development wells were gas completions in the Medina sands of northwest Pennsylvania while the remaining four were oil producers in the Williston Basin of Montana and North Dakota. Both exploratory successes were on the 72,000-acre Prothro Ranch block in Cimarron County, Oklahoma.

Westburne will drill two development wells in the Cimarron County block in the coming year and has a 50 percent working interest until payout with interests varying from 19 to 50 percent in future wells drilled in this project. The Company will also participate in four exploratory wells in Hardeman County, Texas. The total budgeted drilling expenditures in the United States for fiscal 1987 will be approximately one-third of fiscal 1986 in light of the recent drop in oil prices.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

In the year ended March 31, 1986 the Company wrote down the value of assets by $69.9 million, net of deferred income tax of $9.6 million. The majority of such assets are employed in the contract drilling and oil and gas operations of the Company. The write down of assets is the result of the depressed economic condition of energy-related industries. Due to low crude oil prices at March 31, 1986, the oversupply of drilling equipment during the last few years and the lack of demand (with no foreseeable improvement) for deep drilling capacity equipment, the Company considered it necessary to record the impairment in the value of these assets.

As a result of these write downs the Company recorded a loss of $54.4 million in fiscal 1986 compared with net earnings of $9.4 million in 1985 and $8.8 million in 1984 and a restated loss of $1.9 million in 1983 (the restatement for fiscal 1983 and prior years is the result of a retroactive change to the country-by-country full cost method of accounting in respect of the Company's oil and gas activities). Before the 1986 write down of assets, the Company had net earnings of $15.5 million for the fiscal year, an increase of $6.1 million over 1985, and net earnings per common share of $1.48, compared with $0.90 in 1985 and $0.84 in 1984, respectively. The increase in 1986 is principally attributable to improved earnings in the construction equipment and supplies division and reduced losses in the contract drilling segment of the petroleum industry services and supplies division.

Cash flow from operations increased to $34.7 million in fiscal 1986 from $30.0 million in 1985, $24.7 million in 1984 and $28.9 million in 1983, compared with $42.7 million in 1982. The write down of assets in fiscal 1986 did not reduce cash flow from operations. The decreases in fiscal 1983 and fiscal 1984 were due to decreased activity in the petroleum industry services and supplies division and (in fiscal 1983) to decreased revenues in the construction equipment and supplies division.

The increase in earnings in fiscal 1985 was primarily the result of substantially reduced losses before income taxes in the United States segment of the construction equipment and supplies division. The improvement in the operations of this segment was due principally to higher gross margins, together with a reduction in selling, general and administrative costs. Earnings before income tax in the oil and gas division decreased during fiscal 1985 due to increased depletion resulting from increased capital expenditures during the year. The petroleum industry services and supplies division experienced increased losses in fiscal 1985 from those of 1984 mainly as a result of the write-off of a long term receivable.

The increase in earnings in fiscal 1984 was principally attributable to a $10.6 million write down of oil and gas properties in 1983 on restatement to the country-by-country full cost method of accounting. Earnings before restatement increased only slightly from the prior year. Two divisions, the construction equipment and supplies division and the oil and gas division, had significant increases in earnings, which were offset by a decline in earnings in the petroleum industry services and supplies division.

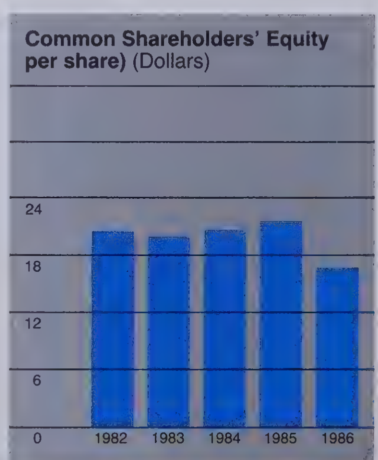
The decline in earnings in 1983 was attributable to several factors, the most significant of which were: a sharp decrease in earnings from Canadian operations and increased loss from United States operations in the construction equipment and supplies division; reduced earnings in the petroleum industry services and supplies division resulting from losses in the Canadian and United States operations; a $2.3 million provision for a loss on an investment in an affiliated company; and the above mentioned $10.6 million write down of oil and gas properties on restatement to country-by-country full cost.

Revenues in fiscal 1986 were $1.44 billion, an increase of 12% over revenues of $1.29 billion in 1985, when revenues had also increased by 12%. Revenues in the construction equipment and supplies division increased $121.9 million in fiscal 1986 and $125.1 million in 1985 due to increases in volume and prices in the Canadian and (in 1985) United States segments of operations; revenues decreased $18 million in the United States segment during fiscal 1986 due primarily to the closing of several branches late in fiscal 1985.

The petroleum industry services and supplies division revenues increased by $30.5 million, or 23.5%, in fiscal 1986 compared with an 8.8%

increase in 1985 and a 17% decrease in 1984 (such decrease occurring principally in the contract drilling segment). The increase in 1986 revenues of this division was attributable to all segments thereof except United States contract drilling, the revenues of which declined 24.9%. Activity in the United States contract drilling segment decreased to 20% of available rig capacity in fiscal 1986 from 27% in fiscal 1985 and 1984, 34% in 1983 and 83% in 1982. The Canadian and international contract drilling operations realized revenue increases of 23.8% and 63.4%, respectively, in fiscal 1986 over fiscal 1985. The increase in 1985 revenues of the petroleum industry services and supplies division was attributable to all segments thereof except international drilling, the revenues of which had continued to decline to $12.4 million from $19.7 million in 1984, $44 million in 1983 and $76 million in 1982. All contract drilling operations in 1986 and 1985 continued to be affected by the worldwide oversupply of equipment and depressed prices in the industry. The oilfield supplies segment of this division realized an increase in revenues of over 25% in fiscal 1986, compared with increases of 14% and 17% in fiscal 1985 and 1984, respectively. However, the present depressed economic condition of the petroleum industry in Western Canada could impact adversely on the current year's operations of this segment.

Revenues of the oil and gas division declined slightly in fiscal 1986 due to lower gas production during the year, after increasing 11% in fiscal 1985 due to increased prices and production. Oil and gas revenues were not severely affected in fiscal 1986 by the significant drop in oil prices from January to March of this year, but if the low prices currently being paid for crude oil continue, the oil and gas division's revenues will be substantially decreased in the current fiscal year.



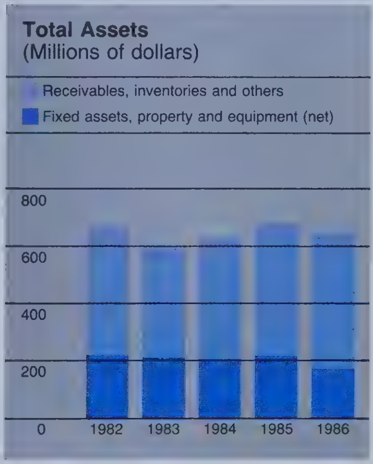
Cost of sales was $1.18 billion in fiscal 1986 (up 11%) compared with $1.06 billion in 1985 (up 12%) and $945.8 million in 1984 (up 8%). Cost of sales in the construction equipment and supplies division increased 10.6% over 1985 compared with an increase of 12% in 1985 over 1984. The increase in both years was proportionate to the increase in revenues so that gross margins have been more or less constant. The cost of sales of the Canadian and United States contract drilling segment decreased 3% over 1985 in contrast to a net increase in revenues of 9.6% which resulted in higher gross margins for the year of $5.2 million, compared with gross margins which increased $1.5 million in 1985 over 1984. The gross profits of this segment decreased $6.9 million in fiscal 1984, mainly as the result of a reduction of revenues caused by reduced activity and lower prices without a comparable offsetting reduction in cost of sales for that year. The cost of sales in the international contract drilling segment increased $6.0 million in fiscal 1986 over 1985, or 50.5%, compared with a decrease of $4 million (25%) the previous year; the increase in 1986 was 13% lower than the increase in revenues for the year. The increase in cost of sales of the oilfield supplies segment in 1986 was 25.4% compared with a 24.9% increase in revenues, resulting in slightly lower gross margins for the year due to a higher volume of sales of lower markup products. Gross margins in this segment had remained constant during the three prior fiscal years. Cost of sales in the oil and gas division increased 10.3% in 1986 and 16% in 1985 as a result of higher production costs.

Selling, general and administrative expenses increased $21 million (12.8%) in fiscal 1986 compared with an increase of $9.9 million (6%) in fiscal 1985. The increase in both years is mainly attributable to the construction equipment and supplies division and is related to additional staff and costs necessitated by the increased volumes of sales. Selling, general and administrative expenses

in 1986 also increased in the oilfield supplies segment as a result of increased volume of sales.

Depreciation and depletion for fiscal 1986 increased $0.9 million, or 4%, compared with a 16% increase in 1985 and a 26% decrease in 1984. Depreciation in the construction equipment and supplies division increased $0.5 million in fiscal 1986 due to the addition of warehouse facilities and a new $6 million distribution centre near Montreal. Depreciation in the petroleum industry services and supplies division is largely provided on an activity basis on contract drilling equipment and was approximately the same for fiscal 1986, 1985 and 1984, reflecting the reduced activity overall in the contract drilling operations. In fiscal 1986 the oil and gas division's depreciation and depletion (provided since fiscal 1984 on a unit of production method on a country-by-country basis) increased $0.3 million compared to an increase of $2.1 million in 1985 and a decrease of $3.4 million in 1984. With the write down of oil and gas properties in fiscal 1986 the depletion base will be reduced and depletion provided will accordingly be reduced in the future.

Interest expense decreased $1 million in fiscal 1986 after an increase of $5.4 million in 1985 and a decrease of $7.4 million in 1984. Although short and long term borrowings increased in 1986, the additional interest related thereto was more than offset by the decline in interest rates for the year. The increase in 1985 was attributable mainly to increased borrowings in the construction equipment and supplies division incurred to finance the increased sales in the year and to slightly higher interest rates during the year. This compares with reduced borrowings and reduced rates applicable through most of fiscal 1984 and 1983.



Interest and other income in fiscal 1986 was $8.3 million compared with $2.7 million in 1985 and $4.8 million in 1984. The increase in 1986 was mainly the result of a $2.4 million increase in interest income in the construction equipment and supplies division on short term deposits. Included in 1985 are losses on the write off of a long term receivable of $2.2 million and the write down of $1 million of an investment in an affiliated company, offset by an insurance recovery of $1.7 million relating to the termination of an international drilling contract.

Net earnings of $15.5 million before the write down of assets in fiscal 1986 were after a provision for income taxes of $12.4 million, net earnings of $9.4 million in 1985 were after a provision for income taxes of $5.6 million, and in 1984 net earnings were $8.8 million after income tax of $4.5 million. See Note 13 of the Notes to the Company's Consolidated Financial Statements which provides detailed information on income tax expense. Income tax on Canadian earnings of the Company is expected to increase in fiscal 1987 with the elimination of the inventory inflation deduction and the imposition of an additional surtax.

Financial Condition and Liquidity

At March 31, 1986 working capital increased to $161.6 million from $157.5 million at March 31, 1985, $147.5 million at March 31, 1984, $142.5 million at March 31, 1983 and $79.9 million at March 31, 1982. The current ratio was 1.49 to 1 at March 31, 1986, 1.54 to 1 at March 31, 1985 and 1.56 to 1 at March 31, 1984. The ratio of long term debt to equity increased to 0.84 to 1 compared with 0.63 to 1 at March 31, 1985 and 0.60 to 1 at March 31, 1984. The increase in the long term debt to equity ratio is the result of the $69.9 million net write down of assets in fiscal 1986.

During the 1985 fiscal year the Company's construction equipment and supplies division converted $70 million in principal amount of long term bank loans with a repayment schedule to a revolving term-loan

with no current repayment requirements. Also, a revolving demand operating loan of the oil and gas division in the principal amount of $6.7 million was reclassified as a revolving long term loan with no repayment requirements. At March 31, 1986 the Company had unused lines of credit with financial institutions in excess of $190 million.

The 9.90% Senior Notes, issued by the Company's petroleum industry services and supplies subsidiary are unsecured but contain various covenants restricting the pledging of assets, the ratio of debt to equity, the level of minimum working capital, the maximum amount of short term borrowings in a twelve month period, the issuance of additional long term debt and the payment of dividends, or the making of loans or advances, to the parent company. As a result of the write down of its contract drilling assets the petroleum industry services and supplies subsidiary is unable, by reason of such covenants, to incur additional long term debt, pay any dividends or invest in any property except property used in the ordinary course in the conduct of its business. The covenants and restrictions are only applicable to the petroleum industry services and supplies subsidiary (the net assets of which for purposes of said covenants are valued at approximately $25.3 million, representing approximately 14% of the Company's consolidated net assets at March 31, 1986) and do not apply to the assets of Westburne's other operations. In the opinion of management, these restrictions do not have a material effect on the overall liquidity of the Company since the other subsidiaries in the aggregate generate substantial cash flow and are not adversely affected by any such restrictions.

Reference is made to Note A of the Supplemental Financial Information to the Consolidated Financial Statements for a reconciliation of the financial data to United States generally accepted accounting principles and for a discussion of the differences between Canadian and United States generally accepted accounting principles which are applicable to the Company's financial statements.

Inflation and Changing Prices

Virtually all of the revenues and costs of the Company are affected by inflation, and the Company is continually seeking ways to cope with its impact. In general, to the extent permitted by competitive factors, the Company passes on increased costs by gradually increasing sale prices. However, the Company has not prepared a detailed analysis of the effect of inflation on operations and is, therefore, not in a position to quantify the impact of the same. Revenues, costs and the current value of reserves in place fluctuate with inflationary trends and market conditions. The real value of the funds borrowed to acquire or develop these reserves declines on a relative basis during inflationary periods.

Westburne International Industries Ltd.
and subsidiary companies

Consolidated Balance Sheet

(Thousands of Canadian Dollars)

ASSETS

March 31,	1986	1985
Current assets		
Cash and short-term deposits	$ 33,131	$ 25,389
Accounts reçeivable	221,136	207,072
Inventories	226,947	206,817
Prepaid expenses and consumable supplies	7,652	8,598
	488,866	447,876
Investments (Note 2)	7,353	9,596
Fixed assets, at cost (Notes 3 and 4)	396,299	368,477
Less accumulated depreciation and depletion	238,372	154,149
	157,927	214,328
Other (Note 5)	5,485	6,452
	$659,631	$678,252

LIABILITIES

Current liabilities		
Bank loans, secured (Notes 6 and 7)	$148,870	$125,912
Accounts payable	166,677	157,118
Income taxes payable	4,620	353
Dividends payable	523	523
Long-term debt due within one year	6,559	6,570
Deferred income taxes	—	(82)
	327,249	290,394
Long term debt, less amount due within one year (Notes 6 and 8)	149,018	146,617
Deferred income taxes	4,807	16,257
Minority interest (Note 9)	10,137	9,956
Unamortized deferred foreign currency translation loss (Notes 1(c) and 4(a))	(7,783)	(16,394)
	483,428	446,830

SHAREHOLDERS' EQUITY

Common shares (Note 10)	90,589	90,589
Contributed surplus	5,326	5,326
Retained earnings (Note 11)	74,915	131,358
Cumulative foreign currency translation adjustment (Note 1(c))	5,373	4,149
	176,203	231,422
	$659,631	$678,252

Signed on behalf of the Board

, Director

, Director

Westburne International Industries Ltd.
and subsidiary companies

Consolidated Statement of Earnings

(Thousands of Canadian Dollars except per share data)

Year Ended March 31,	1986	1985	1984
Operating revenues			
Construction equipment and supplies	**$1,255,209**	$1,133,342	$1,008,224
Petroleum industry services and supplies	**154,239**	124,507	116,303
Oil and gas production	**29,108**	30,688	27,593
	1,438,556	1,288,537	1,152,120
Costs and expenses			
Cost of sales			
Construction equipment and supplies	**1,038,257**	938,849	834,906
Petroleum industry services and supplies	**133,625**	112,520	103,014
Oil and gas production	**10,112**	8,936	7,926
Depreciation and depletion	**20,303**	19,442	16,791
Selling, general and administrative	**184,835**	163,776	153,853
	1,387,132	1,243,523	1,116,490
Earnings from operations	**51,424**	45,014	35,630
Other expenses and revenues (Note 12)	**22,156**	28,791	21,215
Earnings before income taxes, minority interest and write down of assets	**29,268**	16,223	14,415
Income taxes (Note 13)			
Current	**14,057**	8,596	7,341
Deferred	**(1,619)**	(3,036)	(2,864)
	12,438	5,560	4,477
Earnings before minority interest and write down of assets	**16,830**	10,663	9,938
Minority interest	**1,301**	1,277	1,116
Earnings for the year before write down of assets	**15,529**	9,386	8,822
Write down of assets (Note 4)			
Drilling assets (net of deferred income tax of $9,030,000)	**(36,631)**	—	—
Oil and gas properties	**(31,533)**	—	—
Investment (net of deferred income tax of $554,000)	**(1,755)**	—	—
Net earnings (loss) for the year	**$ (54,390)**	$ 9,386	$ 8,822
Earnings per common share before write down of assets	**$ 1.48**	$ 0.90	$ 0.84
Earnings (loss) per common share	**$(5.20)**	$ 0.90	$ 0.84
Common shares outstanding	**10,457,218**	10,457,218	10,457,218

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Westburne International Industries Ltd.
and subsidiary companies

Consolidated Statement of Changes in Financial Position

(Thousands of Canadian Dollars)

Year Ended March 31,	1986	1985	1984
Cash provided from operations			
Earnings before minority interest and write down of assets	**$ 16,830**	$ 10,663	$ 9,938
Depreciation and depletion	**20,303**	19,442	16,791
Deferred income taxes	**(1,619)**	(3,036)	(2,864)
Other	**(791)**	2,913	802
Cash flow from operations	**34,723**	29,982	24,667
Changes in working capital			
Accounts receivable	**(14,064)**	(29,558)	(1,843)
Inventories	**(20,130)**	(10,795)	(21,410)
Prepaid expenses and consumable supplies	**946**	362	(237)
Accounts payable and accrued liabilities	**13,908**	17,727	11,336
	15,383	7,718	12,513
Cash provided (used) in investment			
Capital expenditures	**(31,363)**	(32,427)	(14,204)
Disposal of fixed assets	**2,193**	2,963	3,086
Investments	**(66)**	511	337
Reduction in minority interest	**(1,081)**	(1,132)	(1,088)
Sundry	**(580)**	(1,992)	(2,361)
	(30,897)	(32,077)	(14,230)
Cash decrease before financing and dividends	**(15,514)**	(24,359)	(1,717)
Cash provided (used) in financing			
Long term debt	**1,468**	956	5,972
Foreign currency translation	**922**	3,267	1,628
	2,390	4,223	7,600
Dividends paid	**(2,092)**	(2,092)	(2,614)
	(15,216)	(22,228)	3,269
Cash less bank loans — beginning of year	**(100,523)**	(78,295)	(81,564)
Cash less bank loans — end of year	**$(115,739)**	$(100,523)	$(78,295)

Westburne International Industries Ltd.
and subsidiary companies

Consolidated Statement of Retained Earnings

(Thousands of Canadian Dollars)

Year Ended March 31,	**1986**	1985	1984
Balance at beginning of year	**$131,358**	$123,984	$117,819
Add (deduct)			
Net earnings (loss) for the year	**(54,390)**	9,386	8,822
Change of minority interest in subsidiary companies	**39**	80	(43)
Dividends — common shares	**(2,092)**	(2,092)	(2,614)
Balance at end of year	**$ 74,915**	$131,358	$123,984

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Auditors' Report

The Shareholders
Westburne International Industries Ltd.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. as at March 31, 1986 and 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended March 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended March 31, 1986 in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for foreign currency translation as explained in Note 1 (c), on a consistent basis.

Calgary, Alberta
June 11, 1986

Touche Ross & Co.
Chartered Accountants

Westburne International Industries Ltd.
and subsidiary companies

Consolidated Business Segments Information

(Thousands of Canadian Dollars)

REVENUE CONTRIBUTION

Year Ended March 31,	1986	1985	1984	1983	1982
Construction equipment and supplies					
Canada	$1,114,272	$ 974,404	$ 862,609	$ 786,532	$ 897,026
United States	140,937	158,938	145,615	127,062	143,782
	1,255,209	1,133,342	1,008,224	913,594	1,040,808
Petroleum industry services and supplies					
Contract drilling					
Canada	37,775	30,515	24,095	25,427	31,659
United States	9,463	12,592	10,572	18,556	54,557
International	20,272	12,405	19,754	43,995	75,981
Oilfield supplies	92,482	74,024	64,627	55,245	80,563
	159,992	129,536	119,048	143,223	242,760
Oil and gas exploration and production					
Canada	22,686	23,998	22,105	20,602	15,148
United States	6,422	6,690	5,488	4,989	5,305
	29,108	30,688	27,593	25,591	20,453
Intersegment items	(5,753)	(5,029)	(2,745)	(4,747)	(11,140)
	$1,438,556	$1,288,537	$1,152,120	$1,077,661	$1,292,881

EARNINGS CONTRIBUTION

(Before income taxes and minority interest) (1)

Year Ended March 31,	1986	1985	1984	1983 (Restated)	1982 (Restated)
Construction equipment and supplies					
Canada	$ 35,096	$ 24,232	$ 25,508	$ 9,758	$ 28,558
United States	(4,127)	(2,636)	(9,066)	(8,602)	(4,402)
	30,969	21,596	16,442	1,156	24,156
Petroleum industry services and supplies					
Contract drilling					
Canada	(355)	(2,970)	(2,263)	(1,762)	3,264
United States	(2,165)	(6,658)	(5,384)	(2,284)	14,602
International (2)	1,051	(824)	(545)	7,216	(12,356)
Oilfield supplies	747	854	270	(578)	4,401
	(722)	(9,598)	(7,922)	2,592	9,911
Oil and gas exploration and production					
Canada	1,234	4,972	7,924	6,581	1,994
United States	(787)	(739)	(1,906)	(10,665)	(4,590)
International	(252)	(11)	(82)	(4,090)	(3,572)
	195	4,222	5,936	(8,174)	(6,168)
Intersegment items	(1,174)	3	(41)	(2,218)	146
	29,268	16,223	14,415	(6,644)	28,045
Write down of assets (Note 4)	(79,503)	—	—	—	—
	$ (50,235)	$ 16,223	$ 14,415	$ (6,644)	$ 28,045

(1) Westburne has allocated interest and corporate general and administrative expenses to industry segments because it believes that this allocation best reflects the decentralized and autonomous management of Westburne.

(2) Includes in fiscal 1985 $1,750,000 insurance recovery on termination of an international drilling contract and $935,000 realization of account receivable previously written off.

Consolidated Business Segments Information (Continued)

(Thousands of Canadian Dollars)

ASSETS EMPLOYED

Year Ended March 31,	1986	1985	1984	1983 (Restated)	1982 (Restated)
Construction equipment and supplies					
Canada	$ 397,808	$ 349,145	$ 308,085	$ 293,082	$ 328,072
United States	71,623	73,983	67,484	55,877	52,874
	469,431	423,128	375,569	348,959	380,946
Petroleum industry services and supplies (Note 4(a))					
Contract drilling					
Canada	27,916	31,417	34,449	34,841	45,358
United States	10,987	28,171	30,234	34,294	35,064
International	26,540	43,637	43,392	49,186	70,813
Oilfield supplies	22,702	22,615	23,677	22,273	20,862
	88,145	125,840	131,752	140,594	172,097
Oil and gas exploration and production (Note 4(b))					
Canada	78,348	92,608	93,828	88,917	85,143
United States	18,941	29,749	22,774	20,662	24,750
International	1,716	1,790	1,537	1,256	2,258
	99,005	124,147	118,139	110,835	112,151
Intersegment and corporate items (Note 4(c))	3,050	5,137	5,371	4,630	4,463
	$ 659,631	$ 678,252	$ 630,831	$ 605,018	$ 669,657

CAPITAL EXPENDITURES

Year Ended March 31,	1986	1985	1984	1983	1982
Construction and equipment supplies					
Canada	$ 8,748	$ 5,346	$ 3,001	$ 3,490	$ 6,655
United States	343	360	256	1,386	1,483
	9,091	5,706	3,257	4,876	8,138
Petroleum industry services and supplies					
Contract drilling					
Canada	1,856	1,686	1,180	995	4,359
United States	147	564	407	2,326	17,056
International	2,012	967	248	706	4,629
Oilfield supplies	370	416	150	130	436
	4,385	3,633	1,985	4,157	26,480
Oil and gas exploration and production					
Canada	13,683	13,661	5,413	3,981	4,414
United States	4,029	9,087	3,084	6,840	9,535
International	138	225	461	3,499	909
	17,850	22,973	8,958	14,320	14,858
Intersegment and corporate items	37	115	4	65	66
	$ 31,363	$ 32,427	$ 14,204	$ 23,418	$ 49,542

Consolidated Business Segments Information (Continued)

(Thousands of Canadian Dollars)

DEPRECIATION AND DEPLETION

Year Ended March 31,	1986	1985	1984	1983	1982
Construction and equipment supplies					
Canada	$ 4,307	$ 3,823	$ 3,761	$ 3,564	$ 3,590
United States	468	455	405	336	248
	4,775	4,278	4,166	3,900	3,838
Petroleum industry services and supplies					
Contract drilling					
Canada	2,701	1,719	1,728	1,663	1,584
United States	956	1,774	1,578	2,093	3,108
International	1,250	1,401	1,192	3,449	5,969
Oilfield supplies	188	171	148	155	162
	5,095	5,065	4,646	7,360	10,823
Oil and gas exploration and production					
Canada	6,779	6,164	5,359	6,997	6,594
United States	3,559	3,847	2,537	3,237	3,657
International	—	—	—	1,061	739
	10,338	10,011	7,896	11,295	10,990
Intersegment and corporate items	95	88	83	94	105
	$ 20,303	$ 19,442	$ 16,791	$ 22,649	$ 25,756

Notes to the Consolidated Financial Statements

March 31, 1986 and 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The statements include the accounts of Westburne International Industries Ltd. ("Westburne") and all subsidiary companies (collectively called for the purposes of these notes, the "Company"). Eliminated on consolidation are 1,237,960 common shares of Westburne owned by subsidiaries and carried at a cost of $2,274,000. All material intercompany transactions have also been eliminated.

(b) The Board of Directors has determined that the Company's operations can be divided into three business segments as follows:

(i) Wholesale distribution of construction equipment and supplies (plumbing, heating and electrical products).

(ii) Petroleum industry services and supplies (contract drilling and oilfield supplies).

(iii) Oil and gas exploration and production.

For details see consolidated business segments information, which is an integral part of these financial statements.

(c) Effective April 1, 1984 the Company implemented a change in its foreign currency translation policy in accordance with new recommendations of the Canadian Institute of Chartered Accountants; prior years were not restated.

Under the new policy assets and liabilities of self-sustaining foreign subsidiaries are translated at exchange rates prevailing at the balance sheet date. Income and expenses are translated at average exchange rates prevailing during the year. Gains and losses on translation are deferred and included as a separate component of shareholders' equity.

Non self-sustaining (integrated) foreign subsidiary operations and foreign denominated assets and liabilities of Canadian subsidiary operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Exchange gains or losses are included in the determination of net earnings except for unrealized gains or losses on long-term monetary items which are deferred and amortized over the remaining terms of the related items. Income and expenses, except depreciation and depletion, are converted at average exchange rates for the year.

For fiscal years prior to April 1, 1984, foreign subsidiary financial statements were translated as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the balance sheet date, non-current assets and other liabilities at the exchange rates prevailing on the dates when acquired or incurred, and income and expenses, except depreciation and depletion, at the average exchange rate for the year. Unrealized foreign currency translation gains or losses were excluded in determining net earnings for the year.

For the year ended March 31, 1986 unrealized foreign currency translation losses, which resulted mainly from the translation of fixed assets of certain foreign subsidiaries at historical rates, have been charged to earnings as part of the write down of assets. (See Note 4).

(d) Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

(e) The Company follows the country-by-country full cost method of accounting with respect to its oil and gas activities.

Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells and overhead related to exploration and development activities.

Costs capitalized are being depleted on a unit of production method based on estimated proven reserves by country, as determined by independent engineering reports. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on the approximate relative energy content of each product where applicable. No depletion is provided on costs capitalized in a country until reserves are proven and production commences in that country. Capitalized costs of leases and permits abandoned in countries with no proven reserves are written off to earnings in the year of abandonment.

The Company employs a ceiling test annually whereby capitalized costs are written off if they exceed the present values of future net revenues from estimated production of proven recoverable reserves. For the determination of the present values of future net revenues for the ceiling test the Company has used reservoir engineering reports as at March 31, 1986 based on prices in effect at that date. (See Note 4(b) for write down of oil and gas properties due to impairment at March 31, 1986.)

Proceeds from disposal of properties are normally deducted from capitalized costs with no recognition of any gain or loss.

(f) Investments are valued at the lower of cost or market except for a 50% interest in an affiliated company which is accounted for on the equity method.

(g) It is the policy of the Company to depreciate the cost of plant and equipment to its estimated residual value over the estimated useful lives of the assets as follows:

Buildings — at rates of 5% to 10% per annum mainly on a diminishing balance basis.

Drilling rigs — at a rate per drilling day designed to prorate original cost less a residual value of 30% over 3,000 drilling days.

Drill string — straight-line basis related to drilling activity.

Oil production equipment — unit of production country-by-country full cost based on estimated proven recoverable oil and gas reserves.

Other equipment — mainly 20% to 30% per annum on a diminishing balance basis.

Repairs and maintenance and minor expenditures for renewals and betterments are charged directly to earnings. Major renewals and betterments are capitalized and the replaced units retired.

Except for intangible oil and mineral leases and development expenditures in respect of which the country-by-country full cost method is followed, it is the policy of the Company to reduce the property accounts and related accumulated depreciation of the amounts included therein for property sold and any resultant gain or loss is included in earnings.

(h) Mobilization and start-up costs incurred on long-term drilling contracts in foreign countries are deferred and amortized over the terms of the contracts.

2. INVESTMENTS

A United States corporation, in which Westburne had acquired a minority interest in 1983 at a cost of $2,309,000, purchased a business as a going concern. It was discovered that material facts had been withheld by the vendor of that business and on May 6, 1985 a Statement of Claim was filed by the United States corporation seeking rescission of its purchase and reimbursement of funds invested together with interest and damages. (See Note 4(c) for write down of investment).

3. FIXED ASSETS (See Note 4(a) and (b) below)

	March 31, 1986		March 31, 1985	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 5,904,000	$ 5,904,000	$ 4,510,000	$ 4,510,000
Buildings	34,952,000	21,558,000	31,689,000	19,764,000
Drilling rigs	95,936,000	28,562,000	94,049,000	57,610,000
Drill string	21,927,000	4,348,000	21,819,000	7,700,000
Oil production equipment	32,443,000	18,174,000	27,636,000	15,358,000
Other equipment	52,588,000	15,449,000	49,522,000	18,707,000
Oil and mineral leases and development expenditures	152,549,000	63,932,000	139,252,000	90,679,000
	$396,299,000	$157,927,000	$368,477,000	$214,328,000

4. WRITE DOWN OF ASSETS

For the year ended March 31, 1986, the Company has written down the value of assets employed in the contract drilling and oil and gas production segments of its business due to the depressed economic conditions of the petroleum industry.

(a) Contract Drilling

The Company has recorded a write down of $36,631,000 (net of $9,030,000 deferred income tax) in the value of its drilling assets. The write down relates principally to deep capacity drilling equipment for which limited demand has existed for several years and no improvement is expected in demand in the foreseeable future and to a re-evaluation of certain of its current working fleet of drilling rigs. To reflect the reduction in value of drilling assets, accumulated depreciation was increased by $33,925,000, the carrying value of other drilling assets was reduced by $1,806,000 and unrealized foreign exchange losses were reduced by $9,930,000.

(b) Oil and Gas Properties

The carrying value of oil and gas properties is calculated by applying the country-by-country full cost method of accounting. The Company also employs a ceiling test annually to determine the amount, if any, of capitalized costs of oil and gas properties to be written off. Pursuant to these policies, a write down of $31,533,000 was made at March 31, 1986 to provide for the impairment in value under the ceiling test. For accounting purposes, the amount of accumulated depletion was increased by the aforementioned impairment in value.

(c) Investment

Due to the uncertainty and anticipated long-term nature of the litigation referred to in Note 2 above, the Company has written down the investment to one dollar.

5. OTHER ASSETS

Included in other assets is the unamortized excess of cost of investments in shares of subsidiaries over net assets at date of acquisition amounting to $3,709,000 which arises from the accounting for acquisitions of subsidiaries on a purchase basis.

Management is of the opinion that the amount of $3,258,000 attributed to intangible assets pertaining to subsidiaries acquired prior to April 1, 1974 is of continuing value and accordingly does not contemplate any amortization of this amount. However, in accordance with generally accepted accounting practice, the excess cost of investments in shares of subsidiaries acquired after that date and allocated to intangibles, is being amortized over a period of 40 years.

6. ASSETS PLEDGED

The Company has pledged certain of its accounts receivable as security for bank loans.

7. SHORT-TERM BORROWINGS

The Company has formal arrangements with domestic and foreign banks in respect of short-term borrowings. Details of short-term borrowings follow:

	March 31, 1986	March 31, 1985
Maximum amount of borrowings at any month end during the year	$155,740,000	$144,821,000
Average amount of short-term borrowings during the year	$147,266,000	$131,200,000
Average interest rate at end of year	11.31%	11.08%
Approximate average interest rate during the year	9.91%	11.65%

8. LONG-TERM DEBT

	March 31, 1986	March 31, 1985
Senior Notes 9.90% notes repayable in equal annual installments of $3,847,000 U.S. on August 1, each year to 1993 (1986 — $30,765,000 U.S.; 1985 — $34,612,000 U.S.)	$ 42,988,000	$ 47,315,000
Bank loans	105,782,000	97,595,000
Mortgages, secured debentures, conditional sales contracts, etc. Maturing from 1986 to 2011 with interest rates ranging from 7% to 15.25%	6,807,000	8,277,000
Total long-term debt	155,577,000	153,187,000
Less amount due within one year	6,559,000	6,570,000
	$149,018,000	$146,617,000

The bank loans include:

(a) A $70,000,000 revolving term facility with interest at maximum of prime expiring November 2, 1987, with option to renew for a seven year term.

(b) A $33,920,000 revolving term loan with interest at prime, maturing in August 1986 and renewable annually at the option of the bank.

(c) A $1,862,000 demand loan with interest at prime plus 1% maturing in 1986 and renewable annually at the option of the bank.

The Company's bankers have indicated that no principal repayments on bank loans will be required in the next year and no provision has been made in the debt maturities table for repayment of these bank loans.

The aggregate maturities on long-term debt outstanding as at March 31, 1986 for the succeeding five years are as follows:

1987 — $6,559,000
1988 — $6,562,000
1989 — $6,058,000
1990 — $5,683,000
1991 — $6,008,000

The 9.90% Senior Notes and the $70,000,000 revolving long-term indebtedness of subsidiary companies impose various restrictions relating to the pledging of assets, the ratio of debt to equity, the level of minimum working capital and the issuance of additional long-term debt.

9. MINORITY INTEREST

Amounts making up minority interest are as follows:

	March 31, 1986	March 31, 1985
Preferred shares	$ 1,177,000	$ 1,207,000
Common shares and contributed surplus	602,000	643,000
Retained earnings	8,358,000	8,106,000
	$10,137,000	$ 9,956,000

10. SHARE CAPITAL

Westburne is permitted under the Canada Business Corporations Act to issue an unlimited number of first preferred shares, subordinated preferred shares and common shares.

Common shares

	March 31, 1986		March 31, 1985	
	Shares	Amount	Shares	Amount
Issued at beginning and end of year (1)	10,457,218	$90,589,222	10,457,218	$90,589,222

(1) Exclusive of 1,237,960 shares held by wholly-owned subsidiaries.

11. RETAINED EARNINGS

The 9.90% Senior Notes of a subsidiary company impose various restrictions upon the payment of dividends to Westburne.

12. OTHER EXPENSES (REVENUES)

Year Ended March 31,	1986	1985	1984
Interest — long-term debt	$15,598,000	$16,444,000	$14,110,000
Other interest	14,849,000	15,029,000	11,945,000
Interest and other investment income	(7,790,000)	(3,669,000)	(5,063,000)
(Gain) loss on assets	(501,000)	2,737,000 (1)	223,000
Insurance recovery	—	(1,750,000) (2)	—
	$22,156,000	$28,791,000	$21,215,000

(1) The net loss on assets in 1985 includes a write down of $2,233,000 of a long-term receivable and a write down of $1,026,000 on an investment in an affiliated company.

(2) The insurance recovery relates to termination of an international drilling contract.

13. INCOME TAXES

Income tax expenses for the three years ended March 31, 1986 have varied from applying Canadian Federal and Provincial tax rates as follows:

Year Ended March 31,	1986		1985		1984	
	Amount	%	Amount	%	Amount	%
Average Canadian income tax and rates	$14,341,000	49.0	$ 7,949,000	49.0	$ 7,063,000	49.0
Difference in effective rate on losses of foreign subsidiaries	900,000	3.1	555,000	3.4	300,000	2.1
Provincial tax credits on oil and gas income, capital gains reduction and other	(1,953,000)	(6.7)	(2,170,000)	(13.3)	(2,447,000)	(17.0)
Inventory inflation allowance	(2,228,000)	(7.6)	(2,415,000)	(14.9)	(2,125,000)	(14.7)
Increase due to amortization of excess cost of subsidiary allocated to oil and gas properties	1,378,000	4.7	1,641,000	10.1	1,686,000	11.7
	$12,438,000	42.5	$ 5,560,000	34.3	$ 4,477,000	31.1

Deferred income taxes are provided for on timing differences in the recognition of revenues and expenses for income tax and financial statement purposes, primarily relating to depreciation and depletion and to losses of subsidiary companies.

14. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has entered into lease agreements for premises and equipment and for various other assets. At March 31, 1986, future total minimum lease payments are:

1987	—	$10,607,000
1988	—	8,046,000
1989	—	6,199,000
1990	—	4,918,000
1991	—	3,648,000
Thereafter	—	7,685,000
		$41,103,000

Rent expense for the year ended March 31, 1986 was $13,981,000.

The effect on net income if all non-capitalized financing leases were capitalized would not be significant.

(b) Contingent liabilities exist for guarantees and various suits and claims which have arisen in the normal course of business. In the opinion of management of the Company, the outcome of these contingencies will not have a materially adverse effect upon the Company's financial position.

15. PENSION AND RETIREMENT PLANS

The Company has several separate pension plans covering substantially all of its employees. The total pension expense for the plans was: 1986 — $515,000, 1985 — $269,000, 1984 — $312,000, 1983, — $614,000 and 1982 — $ 1,290,000. Annually, the Company makes the maximum tax deductible contribution to the plans.

A comparison of accumulated benefits and net assets for the various Company's pension plans based on actuarial valuation reports at the dates indicated is presented below:

Actuarial present value of accumulated plan benefits:

	Reports at January 1, 1985	**Reports at January 1, 1986**	**TOTAL**
Vested	$34,004,000	$19,387,000	$53,391,000
Non-vested	597,000	94,000	691,000
	$34,601,000	$19,481,000	$54,082,000
Net assets available for benefits	$35,772,000	$21,646,000	$57,418,000

The assumed rate of return used in determining the actuarial present value of vested and non-vested accumulated plan benefits is 7% per annum, compounded annually. Net assets are stated at market value.

Supplemental Financial Information

The following data are provided to comply with certain requirements of the United States Securities and Exchange Commission (SEC):

A. SUMMARY OF DIFFERENCES BETWEEN CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES (AUDITED)

The Company follows accounting principles generally accepted in Canada and differences exist between those generally accepted in Canada and those applicable in the United States in the following respects:

(a) The Company employs the country-by-country full cost method of accounting for its oil and gas properties. See Note 1(e) of the Notes to the Consolidated Financial Statements. The country-by-country full cost method of accounting requires a write down of costs when no proved reserves exist in a country and leases and permits are surrendered or when capitalized costs in a country exceed the limitation based on the value of proved reserves. Under United States generally accepted accounting principles ("GAAP") there exists a difference in calculating the limitation on capitalized costs and a write down of $3,958,000 at March 31, 1985 would have been required. At March 31, 1986 a write down of oil and gas properties was recored under Canadian GAAP which was $6,218,000 more than would have been required under United States GAAP.

(b) The arm's-length negotiations over the price per share paid for the acquisition of Peyto Oils Ltd. in fiscal 1980 and 1981 resulted in a valuation for oil and gas properties that was substantially higher than the valuation permitted under SEC accounting rules. Pursuant to these rules the difference between these valuations would be attributable to goodwill instead of fixed assets (oil and gas properties). Such difference was being amortized on a straight-line basis. The balance at March 31, 1986 was fully written off under Canadian GAAP and United States GAAP in the write down of oil and gas properties.

(c) Under United States GAAP and the provisions of the Financial Accounting Standards Board ("F.A.S.B.") Statement No. 52, assets and liabilities of foreign operations where the foreign currency is the functional currency would be translated from foreign currencies into Canadian dollars at the exchange rate on the balance sheet date. The entire resulting translation adjustment (including all long-term monetary items) would be shown as a separate item in the shareholders' equity section of the balance sheet. See Note 1(c) of the Notes to the Consolidated Financial Statements.

The Company under United States GAAP would be required to classify two foreign drilling subsidiaries such that their functional currency is the Canadian dollar. Exchange gains and losses on translation for these two foreign subsidiaries would be included in the determination of net income. As a result, for the year ended March 31, 1985, a loss of $1,952,000 on exchange would be charged to net earnings and for the year ended March 31, 1986 a gain of $5,959,000 would be credited to net earnings.

A. SUMMARY OF DIFFERENCES BETWEEN CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES (AUDITED) (Continued)

(d) The Company has recognized future tax reductions resulting from loss carry-forwards incurred in years prior to April 1, 1984 by its United States subsidiaries in the construction equipment and supplies business. Under United States GAAP such recognition of future tax reductions is not permitted until the loss carry-forwards are actually realized, unless such realization is assured beyond any reasonable doubt at the time the loss carry-forwards arise.

The effect on the consolidated balance sheet due to differences between accounting principles generally accepted in Canada and those accepted in the United States is summarized as follows:

	As reported under Canadian accounting principles	Increase (decrease)	Under United States accounting principles
March 31, 1986			
Deferred income taxes	$ 4,807,000	$ 10,858,000	$ 15,665,000
Unamortized deferred foreign currency translation loss	7,783,000	(7,783,000)	—
Cumulative foreign currency translation adjustment included in shareholders' equity (FASB No. 52))	5,373,000	—	5,373,000
Retained earnings	74,915,000	(18,641,000)	56,274,000
March 31, 1985			
Fixed assets including oil and gas properties	$368,477,000	$(13,589,000)	$354,888,000
Accumulated depreciation and depletion	154,149,000	(1,248,000)	152,901,000
Goodwill	—	13,589,000	13,589,000
Deferred income taxes	16,257,000	10,858,000	27,115,000
Unamortized deferred foreign currency translation loss	16,394,000	(16,394,000)	—
Cumulative foreign currency translation adjustment included in shareholders' equity (FASB No. 52))	4,149,000	4,814,000	8,963,000
Retained earnings	131,358,000	(30,818,000)	100,540,000

The effect on earnings of the above differences between accounting principles generally accepted in Canada and those accepted in the United States is summarized as follows:

Year Ended March 31,	1986	1985	1984
Earnings (loss) — Canadian accounting principles	$(54,390,000)	$ 9,386,000	$ 8,822,000
Foreign currency translation (FASB No. 52)	5,959,000	(1,952,000)	(783,000)
Country-by-country full cost method	6,218,000	(3,958,000)	—
Deferred income tax	—	—	(4,171,000)
Earnings (loss) — United States accounting principles	$(42,213,000)	$ 3,476,000	$ 3,868,000
Earnings (loss) per common share — United States accounting principles	$(4.04)	$ 0.33	$ 0.37

B. LONG-TERM DEBT RESTRICTIONS (AUDITED)

Long-term debt instruments of a subsidiary contain covenants which restrict the distribution of funds to Westburne by way of dividends, loans, or advances. At March 31, 1986, the total net assets subject to restriction were $18,901,000.

C. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Thousands of Canadian Dollars except per share data)	June 30, 1985	Sept. 30, 1985	Dec. 31, 1985	Mar. 31, 1986	Full Year
Year ended March 31, 1986:					
Operating revenues	$335,607	$372,999	$395,369	$334,581	$1,438,556
Costs and expenses	330,509	363,177	385,337	338,556	1,417,579
Net earnings before write down of assets	3,247	5,845	5,015	1,422	15,529
Net earnings (loss) after write down of assets	3,247	5,845	5,015	(68,497)	(54,390)
Cash flow from operations	8,858	11,521	12,346	1,998	34,723
Net earnings per common share before write down of assets	$0.31	$0.56	$0.48	$ 0.13	$ 1.48
Net earnings (loss) per common shares after write down assets	$0.31	$0.56	$0.48	$(6.55)	$(5.20)

(Thousands of Canadian Dollars except per share data)	June 30, 1984	Sept. 30, 1984	Dec. 31, 1984	Mar. 31, 1985	Full Year
Year ended March 31, 1985:					
Operating revenues	$303,952	$327,305	$338,711	$318,569	$1,288,537
Costs and expenses	300,110	323,289	334,436	317,161	1,274,996
Net earnings (loss)	2,287	4,188	3,702	(791)	9,386
Cash flow from operations	6,164	8,495	9,668	5,655	29,982
Net earnings (loss) per common share	$0.22	$0.40	$0.35	$(0.07)	$0.90

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

In 1983, the Company adopted the FASB Statement No. 69 "Disclosures About Oil and Gas Producing Activities". The information required by FASB Statement No. 69 is discussed below and detailed in Tables A through F.

The reserve quantity valuation estimates included in the following tables have been based upon reports of McDaniels and Associates Consultants Ltd., Lee Keeling and Associates Inc., and Ryder Scott Company Petroleum Engineers.

Estimated quantities of proved developed reserves of crude oil (including natural gas liquids) and natural gas are disclosed net after royalty. Proved reserves are estimated quantities of reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are expected to be recovered from existing wells with existing equipment and operating methods. Values are computed by applying current prices and costs adjusted only for fixed and determinable contractual escalation and for prices established by the Federal/Provincial Energy Pricing and Taxation Agreements. Future net revenues are discounted at a rate of 10%.

The estimated impact of major factors affecting annual changes in proved reserves are described below:

(1) "New Field Discoveries and Extensions" represents proved reserves added from drilling exploratory and development wells;

(2) "Change in Prices of Oil and Gas, Net of Related Lifting Costs" represents the approximate effect of changes from one period to the next in the prices and lifting costs;

(3) "Accretion of Discount" is computed by applying 10% to the standardized measure of discounted net cash flows before income taxes as of the beginning of the year in recognition of the increase resulting from the impact of the passage of time on the discounted cash flow approach to the valuation of the proved reserves;

(4) "Provision for Income Taxes" has been calculated using the income tax rates as calculated after making provision for the tax base for oil and gas properties, non-deductible crown royalties and taxes, resource allowance and provincial tax credits.

The Company emphasizes the estimates included in the following tables are by their nature inexact and are subject to changing economic, operating and contractual conditions. Some of the amounts may not agree with amounts reported under similar headings presented elsewhere in this report due to categorization of costs by FASB Statement No. 69. United States reserve values have been converted to Canadian dollar equivalents at rates in effect during the respective reporting periods.

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (Continued)

Table A — Estimated quantities of oil and gas reserves

	Canada		United States		Total	
	Oil (bbls.)	Gas (mcf)	Oil (bbls.)	Gas (mcf)	Oil (bbls.)(1)	Gas (mcf)
Proved developed and undeveloped reserves:						
Balance March 31, 1983	4,571,000	33,287,000	210,000	3,368,000	4,781,000	36,655,000
Revision of previous estimates	744,000	3,761,000	53,000	2,212,000	797,000	5,973,000
Extensions, discoveries and other additions	302,000	2,775,000	184,000	415,000	486,000	3,190,000
Production	(518,000)	(1,759,000)	(69,000)	(723,000)	(587,000)	(2,482,000)
Balance March 31, 1984	5,099,000	38,064,000	378,000	5,272,000	5,477,000	43,336,000
Revision of previous estimates	1,072,000	(732,000)	(24,000)	511,000	1,048,000	(221,000)
Purchase of reserves	—	—	190,000	36,000	190,000	36,000
Extensions, discoveries and other additions	296,000	1,074,000	121,000	418,000	417,000	1,492,000
Production	(548,000)	(2,282,000)	(117,000)	(631,000)	(665,000)	(2,913,000)
Balance March 31, 1985	5,919,000	36,124,000	548,000	5,606,000	6,467,000	41,730,000
Revision of previous estimates	(89,000)	(176,000)	43,000	614,000	(46,000)	438,000
Extensions, discoveries and other additions	299,000	3,737,000	61,000	1,565,000	360,000	5,302,000
Sale of reserves	—	—	(1,000)	—	(1,000)	—
Production	(532,000)	(1,640,000)	(130,000)	(617,000)	(662,000)	(2,257,000)
Balance March 31, 1986	5,597,000	38,045,000	521,000	7,168,000	6,118,000	45,213,000
Proved developed reserves:						
Balance March 31, 1983	4,571,000	33,287,000	210,000	3,368,000	4,781,000	36,655,000
Balance March 31, 1984	5,099,000	38,064,000	378,000	5,272,000	5,477,000	43,336,000
Balance March 31, 1985	5,919,000	36,124,000	534,000	5,602,000	6,453,000	41,726,000
Balance March 31, 1986	5,597,000	38,045,000	521,000	6,976,000	6,118,000	45,021,000

(1) Includes natural gas liquids (March 31, 1985 — 2,161,000 bbls.; March 31, 1986 — 1,781,000 bbls.)

Table B — Capitalized costs relating to oil and gas producing activities

(Thousands of Canadian Dollars)	Canada	United States	Other	Total
March 31, 1986				
Proved properties	$129,733	$ 45,826	$ —	$175,559
Unproved properties	6,165	894	2,950	10,009
	$135,898	$ 46,720	$ 2,950	$185,568
Accumulated depreciation and depletion	$ 72,146 (1)	$ 29,399 (2)	$ 1,261	$102,806
March 31, 1985				
Proved properties	$116,269	$ 40,826	$ —	$157,095
Unproved properties	5,793	1,096	3,051	9,940
	$122,062	$ 41,922	$ 3,051	$167,035
Accumulated depreciation and depletion	$ 45,154	$ 14,509	$ 1,261	$ 60,924

(1) Includes write down of capitalized costs of $20,603.
(2) Includes write down of capitalized costs of $10,930.

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (Continued)

Table C — Costs incurred in oil and gas property acquisition, exploration and development activities

(Thousands of Canadian Dollars)	Canada	United States	Other	Total
Year Ended:				
March 31, 1986				
Capitalized costs incurred:				
Property acquisition costs				
Unproved	$ 1,617	$ 494	$ —	$ 2,111
Proved	—	—	—	—
Exploration costs	1,916	1,283	138	3,337
Development costs	10,459	2,233	—	12,692
	$ 13,992	$ 4,010	$ 138	$ 18,140
March 31, 1985				
Capitalized costs incurred:				
Property acquisition costs				
Unproved	$ 1,554	$ 544	$ —	$ 2,098
Proved	93	2,513	—	2,606
Exploration costs	2,493	4,072	225	6,790
Development costs	9,091	1,921	—	11,012
	$ 13,231	$ 9,050	$ 225	$ 22,506
March 31, 1984				
Capitalized costs incurred:				
Property acquisition costs				
Unproved	$ 1,193	$ 91	$ —	$ 1,284
Proved	—	—	—	—
Exploration costs	1,324	1,507	461	3,292
Development costs	2,818	1,418	—	4,236
	$ 5,335	$ 3,016	$ 461	$ 8,812

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (Continued)

Table D — Results of operations for producing activities

(Thousands of Canadian Dollars except per barrel data)	Canada	United States	Other	Total
Year Ended:				
March 31, 1986				
Oil and gas sales	$ 22,036	$ 6,754	$ —	$ 28,790
Production (lifting) costs	7,636	2,074	—	9,710
Depreciation and depletion	6,469	3,644	—	10,113
Earnings before income taxes	7,931	1,036	—	8,967
Income tax expense	1,067	—	—	1,067
Earnings from producing activities before write down of capitalized costs	6,864	1,036	—	7,900
Write down of capitalized costs	(20,603)	(10,930)	—	(31,533)
Loss from producing activities	$ (13,739)	$ (9,894)	$ —	$ (23,633)
Depreciation and depletion per barrel	$ 5.05	$ 15.64	$ —	$ 7.42
March 31, 1985				
Oil and gas sales	$ 23,192	$ 7,125	$ —	$ 30,317
Production (lifting) costs	6,569	2,047	—	8,616
Depreciation and depletion	6,164	3,847	—	10,011
Earnings before income taxes	10,459	1,231	—	11,690
Income tax expense	2,003	—	—	2,003
Earnings from producing activities	$ 8,456	$ 1,231	$ —	$ 9,687
Depreciation and depletion per barrel	$ 6.64	$ 17.33	$ —	$ 8.71
March 31, 1984				
Oil and gas sales	$ 21,400	$ 5,724	$ —	$ 27,124
Production (lifting) costs	5,831	1,561	82	7,474
Depreciation and depletion	5,359	2,537	—	7,896
Earnings (loss) before income taxes	10,210	1,626	(82)	11,754
Income tax expense (recovery)	2,910	(469)	—	2,441
Earnings (loss) from producing activities	$ 7,300	$ 2,095	$ (82)	$ 9,313
Depreciation and depletion per barrel	$ 6.61	$ 13.35	$ —	$ 7.89

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (Continued)

Table E — Standardized measure of discounted future net cash flows relating to proved oil and gas reserves

(Thousands of Canadian Dollars)	Canada	United States	Total
March 31, 1986			
Future cash inflows	$212,735	$ 37,776	$250,511
Future costs			
Production	103,446	11,470	114,916
Development costs	7,491	134	7,625
Future net cash flows before income taxes	101,798	26,172	127,970
Future income taxes	18,648	—	18,648
Future net cash flows	83,150	26,172	109,322
10% discount factor	37,487	10,021	47,508
Standardized measure of discounted future net cash flows	$ 45,663	$ 16,151	$61,814
March 31, 1985			
Future cash flows	$271,773	$ 43,446	$315,219
Future costs			
Production	86,882	12,133	99,015
Development costs	8,125	302	8,427
Future net cash flows before income taxes	176,766	31,011	207,777
Future income taxes	53,128	—	53,128
Future net cash flows	123,638	31,011	154,649
10% discount factor	62,607	12,261	74,868
Standardized measure of discounted future net cash flows	$ 61,031	$ 18,750	$ 79,781
March 31, 1984			
Future cash inflows	$239,227	$ 37,630	$276,857
Future costs			
Production	102,739	9,067	111,806
Development costs	12,624	39	12,663
Future net cash flows before income taxes	123,864	28,524	152,388
Future income taxes	43,792	—	43,792
Future net cash flows	80,072	28,524	108,596
10% discount factor	39,610	10,602	50,212
Standardized measure of discounted future net cash flows	$ 40,462	$ 17,922	$ 58,384

D. OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (Continued)

Table F — Changes in standardized measure of discounted future net cash flows related to proved oil and gas reserves

(Thousands of Canadian Dollars)

Year Ended: March 31,	1986	1985	1984
Standardized measure before income taxes at beginning of year	$ 79,781	$ 80,511	$ 59,205
Revision to reserves proved in prior years attributable to			
Revision of quantity estimates	230	10,125	14,869
Change in prices of oil and gas, net of lifting costs	(18,023)	15,540	8,465
Accretion of discount	7,978	8,051	5,921
	(9,815)	33,716	29,255
New field discoveries and extensions, net of future production and development costs	6,018	9,121	10,617
Development costs incurred during period which reduced future development costs	2,418	1,993	1,343
Purchases of reserves	—	2,770	—
Sales of reserves	(6)	(63)	—
Production, net of lifting costs	(19,080)	(21,699)	(19,732)
Changes in production rates and other	14,507	(376)	(177)
Standardized measure before income taxes	73,823	105,973	80,511
Provision for income taxes	12,009	26,192	22,127
Standardized measure at end of year	$ 61,814	$ 79,781	$ 58,384

Five Year Financial Data (1)

United States Generally Accepted Accounting Principles

(Thousands of Canadian Dollars Except Per Share Data)

Year ended March 31	1986	1985	1984	1983	1982
Operating revenues	**$1,438,556**	$1,288,537	$1,152,120	$1,077,661	$1,292,881
Net earnings (loss) before write down of assets	**27,706**	3,476	3,868	(11,767)	4,382
Net earnings (loss) after write down of assets	**(42,213)**	3,476	3,868	(11,767)	4,382
Net earnings (loss) per common share before write down of assets	**2.65**	0.33	0.37	(1.12)	0.42
Net earnings (loss) per common share after write down of assets	**(4.04)**	0.33	0.37	(1.12)	0.42
Total assets	**659,631**	679,500	637,383	610,447	678,361
Long term obligations	**149,018**	146,617	132,489	135,315	72,658

(1) This information is presented pursuant to Regulation S-K of the rules and regulations of the United States Securities & Exchange Commission.

Westburne International Industries Ltd.
and subsidiary companies

Ten Year Summary

(Thousands of Canadian Dollars Except Per Share Data)

Year ended March 31	1986	1985	1984
Operating			
Operating revenues			
Construction equipment and supplies	**$1,255,209**	$1,133,342	$1,008,224
Petroleum industry services and supplies	**154,239**	124,507	116,303
Oil and gas production	**29,108**	30,688	27,593
	$1,438,556	1,288,537	1,152,120
Net earnings (loss) applicable to common shares			
Before write down of assets	**15,529**	9,386	8,822
After write down of assets	**(54,390)**	9,386	8,822
Per common share outstanding (2) (6)			
Basic earnings (loss)			
Before write down of assets	**1.48**	0.90	0.84
After write down of assets	**(5.20)**	0.90	0.84
Cash flow from operations	**34,723**	29,982	24,667
Dividends			
Per common share (3)	**$0.20**	$0.20	$0.25
Financial			
Receivables	**$ 221,136**	$ 207,072	$ 177,514
Inventories	**226,947**	206,817	196,022
Working capital	**161,617**	157,482	147,541
Capital expenditures (4)	**31,363**	32,427	14,204
Fixed assets, net of depreciation and depletion	**157,927**	214,328	202,068
Total assets	**659,631**	678,252	630,831
Long-term debt	**149,018**	146,617	132,489
Redeemable preferred shares		—	—
Common shareholders' equity	**176,203**	231,422	219,899
Equity per common share (5) (6)	**16.85**	22.13	21.03
Number of common shares outstanding (6)	**10,457,218**	10,457,218	10,457,218

(1) Results of certain prior years have been restated to reflect adjustments to previously operating results.
(2) Based on weighted number of common shares outstanding during the year.
(3) Includes $0.625 special dividend in 1979.
(4) Includes acquisition of Peyto Oils Ltd. in 1981 and 1980.
(5) Based on common shares outstanding at year end.
(6) After giving retroactive effect to the 2 for 1 split of the common shares effective August 31, 1979.

1983	1982	1981	1980	1979	1978	1977
(Restated)	(Restated)	(Restated)	(Restated)			
$ 913,594	$1,040,808	$ 895,408	$ 752,784	$ 426,118	$ 341,222	$ 311,436
138,476	231,620	254,897	189,295	183,140	135,345	105,698
25,591	20,453	18,303	8,588	6,689	6,099	5,361
1,077,661	1;292,881	1,168,608	950,667	615,947	482,666	422,495
(1,913)	6,086	33,044	23,261	23,935	15,943	8,870
(1,913)	6,086	33,044	23,261	23,935	15,943	8,870
(0.18)	0.58	3.39	2.99	3.14	2.18	1.27
(0.18)	0.58	3.39	2.99	3.14	2.18	1.27
28,929	42,672	62,801	45,718	41,965	29,059	21,067
$0.40	$0.70	$0.70	$0.70	$1.00	—	—
$ 175,671	$ 215,063	$ 215,864	$ 192,173	$ 132,178	$ 84,954	$ 74,437
174,612	187,428	174,537	159,049	111,523	67,302	62,496
142,544	79,884	102,011	69,861	82,461	35,151	31,296
23,418	49,542	84,539	71,098	21,196	14,563	13,953
207,741	220,353	211,487	161,335	104,068	98,070	99,117
605,018	669,657	653,253	555,605	393,336	290,972	273,284
135,315	72,658	79,898	101,728	86,498	50,793	62,271
—	—	—	—	—	1,215	1,725
213,734	219,845	221,155	112,919	95,094	77,945	60,986
20.44	21.02	21.15	14.53	12.23	10.53	8.42
10,457,218	10,457,218	10,458,818	7,772,440	7,772,440	7,402,808	7,242,608

Directors and Officers

Directors

*S. AM ABRAMOVITCH,
President,
Westburne International
Industries Ltd.,
Montreal, Quebec

C. ATKINSON-BARNETT,
Private Investor,
Toronto, Ontario

†W. M. BOOTH,
President,
‡Westburne Exploration Inc.
Denver, Colorado

J. H. COLEMAN,
President,
J.H.C. Associates Limited
Financial consultants
Toronto, Ontario

L. UCIEN CORNEZ,
Retired,
Waterloo, Belgium

W. J. CUMMER,
Private Investor,
Hamilton, Bermuda

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Partner of MacKimmie
Matthews,
Barristers & Solicitors,
Calgary, Alberta

†J. D. MITCHELL,
Chairman,
Fowler, Bauld and Mitchell
Ltd., Architects
Halifax, Nova Scotia

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President,
‡Westburne Petroleum
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Calgary, Alberta

J. OSEPH RIMERMAN,
President,
Rayrow Realties Ltd.,
Montreal, Quebec

L. R. ROBERTS,
Vice President —
Finance,
Westburne International
Industries Ltd.,
Calgary, Alberta

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President,
‡Saillant Inc.
Plumbing & heating supplies,
Quebec, Quebec

*J. A. SCRYMGEOUR,
Chairman of the Board,
Westburne International
Industries Ltd.,
Hamilton, Bermuda

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Retired,
Hamilton, Ontario

D. W. WESTCOTT,
Retired,
Vancouver, British Columbia

*P. D. WILLIAMS,
President,
‡Westburne Petroleum &
Minerals Ltd.
Calgary, Alberta

Officers

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Chairman of the Board

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President

P. D. WILLIAMS,
Executive Vice President
Senior Vice President —
Exploration and Production

P. J. PORTER,
Senior Vice President —
Petroleum Services

L. R. ROBERTS,
Vice President — Finance

W. J. E. GILLETT,
Vice President — Controller

D. M. GRAVES,
Vice President — Administration

J. E. FORSYTH,
Vice President — General Counsel
and Secretary

**Member of the Executive Committee*
†Member of the Audit Committee
‡Subsidiary company

Westburne International Industries Ltd.
and subsidiary companies

Corporate Information

Head Office
535 Seventh Avenue S.W.,
Calgary, Alberta
Telephone (403) 233-6600

Transfer Agent and Registrar
Montreal Trust Company,
Vancouver, Calgary, Regina,
Winnipeg, Toronto and Montreal

The Royal Bank & Trust Company
New York, N.Y.

Legal Counsel
MacKimmie Matthews,
Calgary, Alberta
Dunnington, Bartholow & Miller,
New York, N.Y.

Auditors
Touche Ross & Co.

Stock Exchanges
The Toronto Stock Exchange
The Montreal Stock Exchange
The Alberta Stock Exchange
The American Stock Exchange, Inc.
Ticker Symbol (WBI)

Form 10-K
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1986 as filed with the U.S. Securities and Exchange Commission may be obtained without charge by writing to the Secretary of the Company, 300, 535 - 7th Avenue S.W., Calgary, Alberta, Canada T2P 0Y4.

Annual General Meeting
The Annual General Meeting of Shareholders of Westburne International Industries Ltd. will be held in Calgary, Alberta in the Oval Room of the Palliser Hotel at 10:00 a.m., August 21, 1986.

Price Range of Common Shares
Two fiscal years ended March 31, 1986

	Toronto Stock Exchange		American Stock Exchange	
	High	Low	High	Low
	(Canadian Dollars)		(U.S. Dollars)	
1984				
2nd Quarter	17	14¾	13½	11½
3rd Quarter	16	12	12⅜	9
4th Quarter	14½	10⅞	10⅜	8¼
1985				
1st Quarter	14⅞	11½	10⅞	8⅝
2nd Quarter	15⅞	14⅛	11⅝	10⅛
3rd Quarter	16⅛	12⅞	11¾	9½
4th Quarter	18⅝	14⅝	13⅜	11⅝
1986				
1st Quarter	17⅝	16¼	12¾	10⅝

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